



Jack Scott, Chair
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 1:30 p.m. – Room 113

Outcomes – Several Actions – April Finance Letters

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Department of Education – Local Assistance (6110)**I. State Categorical Programs:**

Two budget items that relate to the previous (April 12th) Subcommittee hearing on the Governor's 2004-05 proposals for K-12 categorical program reform are presented below. The Economic Impact Aid proposal was developed by the LAO, in part, as an alternative to the Governor's major categorical consolidation-shift proposal. The Governor's proposal to phase-out the Early Mental Health Initiative is a part of a list of categorical program reductions and eliminations proposed by the Governor that were discussed at April 12th hearing.

A. Economic Impact Aid – LAO Proposal

The Governor's Budget proposes \$548 million for the Economic Impact Aid (EIA) program in 2004-05. This includes an increase of \$49.1 million over the 2003-04 budget providing (1) \$34.6 million for growth and COLA and (2) \$14.5 million from EIA funding shifted from Charter Schools to EIA.

EIA is a categorical program that was created more than 25 years ago to provide funding for compensatory education services to low-performing and English learner students.

The EIA formula provides funding to school districts through a complicated set of formulas that recognizes need as measured by the concentration of English learner, poor, and transient students. Funding is distributed to districts through pup-pupil grants and minimum district grants.

There are approximately 1,559,542 students who are English learners in California – more than 25.6 percent of the student population. With regard to poverty measures, there are roughly 3,006,877 students – 49 percent of the student population receiving free and reduced price meals and 622,845 pupils—10 percent of students -- from families receiving CalWORKs.

The LAO notes a number of problems with the EIA formula. First, the EIA formula is felt to be outdated in terms of its heavy emphasis on poverty over English learners. English learners have become a larger group than students in

poverty since the formula was established. Secondly, the formula results in allocations that appear arbitrary and unpredictable based upon need.

For this reason, the LAO recommends that the EIA formula be redesigned to base funding more directly on the number of students who are poor and English learners. The new formula would be more simple and make allocations to districts more predictable.

As a part of the formula redesign, the LAO recommends that funding from two other categorical programs be consolidated into the EIA formula, as follows:

- Shift \$53.2 million for the English Learner Student Assistance Program (ELAP) into the main EIA formula. The Governor proposes shifting ELAP funding into revenue limits in the budget year. While the LAO was supportive of the Governor's categorical consolidation-shift proposal, the LAO does not support the Governor's shift for programs serving special needs students such as ELAP.
- Shift an unspecified portion of Targeted Instructional Improvement Grant (TIIG) funds used for instructional purposes as an add-on to the EIA formula. The Governor proposes to shift these funds into revenue limits as a part of his categorical reform proposal.

B. Early Mental Health Initiative Program

Background: The Early Mental Health Initiative (EMHI) was authorized by Chapter 757, Statutes of 1991 (AB 1650). The goals of the program are to minimize the need for more intensive and costly services as students grow older and to increase the likelihood that students experiencing school adjustment difficulties will succeed in school.

The program targets school-aged children between Kindergarten and third grade who are experiencing mild to moderate school adjustment issues and who are *not* otherwise eligible for special education assistance or county mental health services because their condition is not severe enough to meet the eligibility criteria in these other programs.

The program is funded with Proposition 98 dollars, but administered by the Department of Mental Health (DMH). Under the Early Mental Health Initiative, DMH awards grants (for up to three-years) to local education agencies (LEAs) to

implement early mental health intervention and prevention programs. Schools that receive grants must match state EMHI funds.

EMHI grant programs are required to utilize researched-based services delivered by trained paraprofessionals in collaboration with County Mental Health Departments. Services are school-based and targeted specifically to students from low-income families who are in out-of-home placements or who are at risk of out-of-home placement. The average cost of the program is \$600 per student. The vast majority of student participants (84 percent) receive only one cycle of services (once a week for 12 to 15 weeks).

The EMHI program has been evaluated to be effective in improving the long-term social competence and school adjustment issues presented by children in the target population. A study conducted by an independent contractor for the Department of Mental Health in 2000 demonstrated that the children who were served in EMHI in the fall showed improved scores on social competence and school adjustment by the end of their program in winter. The comparison group of children, who were waiting to begin services, did not show comparable growth during the same time period, and in contrast, their social competency and school adjustment scores actually declined.

The same independent contractor demonstrated a large improvement in social competence and school adjustment related behaviors between the baseline and year-one follow-up. These gains were maintained into the second year following services.

Governor's Proposed Budget: The Governor proposes to reduce the Early Mental Health Initiative Program from \$10 million in 2003-04 to \$5 million in 2004-05 in order to eliminate funding for a new cycle of three-year grants. The remaining \$5 million in 2004-05 would cover existing grants that will be in the third (and final) year of the grant cycle.

In the current year, the program is supporting a total of 137 grants, with 73 grants being in their second-year of the three-year grant cycle, and 64 grants being in their third and final year of the cycle.

In 2003-04, the Davis Administration proposed eliminating all \$15 million in funding for the program, but partial funding of \$10 million was restored in the final 2003-04 Budget. By phasing third year grants out in 2004-05, the Schwarzenegger Administration is proposing to eliminate the program 2005-06.

When Governor Davis proposed an elimination of funding for the program, the proposal included an elimination of five DMH positions. When the Legislature restored \$10 million in the 2003-04 budget, none of these positions were restored. The Department of Mental Health's budget was reduced by \$439,000 to reflect the elimination of these positions.

The department is evaluating what staffing level it would need to initiate a new RFP process if the Legislature restores \$5 million in funding. The department is looking into this matter and will have a response next week.

The LAO does not object to the Governor's proposal to eliminate funding for the EMHI program. Although the program has demonstrated positive outcomes for children, the LAO believes that elimination is an option that the Legislature may want to consider during this difficult budget year.

II. Federal Funds Overview (Information Only)

California receives state education grant funding from three major federal agencies – the Department of Education, the Department of Health and Human Services and the Department of Agriculture. Four federal programs – child nutrition (school meals), Title I (compensatory education), child development (child care) and special education -- provide most of the funding to K-12 schools in California. These four programs are among the largest federal grant programs to our state overall.

Estimated funding for these programs in 2004-05 is summarized by the table below. According to the latest estimates available from the federal government, California will receive approximately \$7.0 billion in federal education funds in 2004-05 (Federal Fiscal Year 2004), an increase of \$362.1 million, or 5.5 percent from 2003-04.

Federal Funds Agency/Program	FFY 2003	FFY 2004	Change
<i>US Dept. of Education:</i>			
Title I and Other Programs Authorized Under NCLB	2,879,879,749	3,077,533,610	197,653,852
Special Education – IDEA	1,024,670,225	1,166,512,656	141,842,431
Vocational and Adult Education – Perkins & WIA,	220,718,119	222,270,088	1,551,969
<i>Subtotal, USDE Funds</i>	<i>4,134,921,791</i>	<i>4,476,913,239</i>	<i>341,991,448</i>

<i>US Dept of Agriculture:</i>			
School Nutrition – School Lunch, Breakfast, Summer Meal Programs	1,444,865,000	1,616,804,000	171,939,000
<i>Subtotal, USDA Funds</i>	<i>1,444,865,000</i>	<i>1,616,804,000</i>	<i>171,939,000</i>
<i>US Dept of Health & Human Services:</i>			
Child Care – TANF & Child Care and Development Block Grant	1,044,876,000	893,041,000	-151,835,000
<i>Subtotal, USHHS Funds</i>	<i>1,044,876,000</i>	<i>893,041,000</i>	<i>-151,835,000*</i>
<i>Total, Federal Funds K-12 Education Funds to California</i>	<i>\$6,624,662,791</i>	<i>\$6,986,758,239</i>	<i>\$362,095,448</i>

* Reductions reflect adjustments for the loss of one-time TANF funds (\$118.0 m), TANF savings associated with Stage II Child Care (\$53.8m), and a reduction (\$20 m) in the level of Child Care and Development Block Grant funds in 2004-05.

Federal funds appropriated from the U.S. Department of Education (USDE) for elementary and secondary education will increase by \$342.0 million (8.3 percent) in 2004-05, to California. This includes an increase of \$197.7 million (6.9 percent) for programs authorized under No Child Left Behind (NCLB) -- including Title I programs -- in 2004-05. In addition, special education funds authorized under the Individuals with Disabilities Education Act will increase by \$141.8 million in 2004-05, of which \$139.5 million is for Part B grants for school-age children and youth. (See [Appendix A – page 42](#), for the latest federal estimates of USDE grants to California for FFY 2004.)

The Governor's January 10 Budget reflects \$6.6 billion in federal funds in 2004-05, approximately \$366.8 million below the latest federal grant estimates. The Governor proposes to revise federal funding estimates for most state programs via the April Finance Letter. Other remaining revisions will follow at May Revise. These revisions reflect new amounts in the Consolidated Appropriations Act (H.R. 2673) signed by President Bush on January 23, 2004, after the Governor's Budget was released. This Act contains the appropriations for Labor, Health and Human Services (HHS), and Education departments for federal fiscal year 2004.

The Subcommittee will consider proposals for appropriating new and ongoing federal funds for education programs at this and future hearings.

III. Special Education:

Background: There are approximately 675,332 children and youth with disabilities receiving special education services in California schools. Special education students ages 5 to 18 years represent approximately 10 percent of our state's K-12 student population statewide.

The overwhelming majority (92.6 percent) of children and youth receiving special education services in our state are 5 to 18 years old. However, 6.0 percent are under age 5 years and another 1.4 percent of students are age 19-22.

The population of children and youth with disabilities receiving special education services in California is very diverse racially and ethnically. Most students with disabilities in California -- 62.2 percent -- are students of color.

Federal law defines 13 categories of disability. More than two-thirds of the students with disabilities in California fall in two categories -- specific learning disability and speech or language impairment. (See Appendix B -- page 43)

The Governor's Budget proposes **\$2.67 billion** in General Fund support (Proposition 98) for special education in 2004-05.

The Governor's Budget also includes **\$1.03 billion** in federal special education funds for students ages 3-21 years in the budget year in 2004-05, which reflects an increase of \$74.3 million in the budget year. These federal funds are authorized under Part B of the Individuals with Disabilities Act (IDEA).

The latest estimates from the U.S. Department of Education indicate California will receive a total of **\$139.5 million** in additional federal IDEA funds in 2004-05 - \$65.0 million above the Governor's projections. These additional dollars will increase IDEA, Part B funding to a total of approximately **\$1.1 billion** in 2004-05. The Administration will propose revisions to the Governor's Budget at May Revision to update the latest federal estimates.

Budget Items/Issues:

A. Special Education -- Federal Funding Offset

Background: State law requires that federal special education funds be used as an "offset" to state funding in any year where total funding for special education funding is higher than the prior year. In practice, federal special education funds are used to fund state General Fund increases for special education growth and COLA each year.

The offset (or deduct) has been authorized in law since the early 1980's and was continued by AB 602 (Davis & Poochigian) -- the state's special education funding

reform measure enacted in 1997. **However, the statutory provisions of the deduct were placed on hold from 1997-98 to 2000-01, so that new IDEA funds could be used to supplement state special education funding and implement funding equalization under AB 602.** The Administration continued to place most of the offset on hold in 2001-02, but returned to using the offset in 2002-03.

IDEA statutes and regulations stipulate that states must ensure federal IDEA funds are used to supplement, not supplant state and local funds. These laws and statutes also require states to maintain maintenance-of-effort (MOE) in order to qualify for federal funding.

In the early 1990's U.S. Representative George Miller became concerned about whether California's deduct provision was legal and in compliance with Congressional intent regarding federal special education law.

A couple of legal opinions developed in the early 1990's found the deduct provision to meet the legal test as long as the state provided maintenance-of-effort so that state and local funding for special education was not any less than the year before. These decisions also seem to require the state to use offset funds for new purposes, such as growth and COLA.

Under these MOE provisions, California must provide annual assurances that state funding – defined as state General Funds and property taxes expended for special education – does not decrease from year-to-year. Failure to comply results in penalties in the form of reduced federal funding in the amount of the state shortfall.

The Governor's 2004-05 Budget proposes a \$107.4 million increase for special education programs to cover enrollment growth (\$37.4 million) and a 1.84 percent COLA (\$70 million). This proposed increase is consistent with the Governor's proposal to provide statutory growth and COLA's for all education revenue limit and categorical programs in 2004-05.

The Governor's Budget proposes to fund the \$107.4 million in special education growth and COLA expenses with \$74.5 million in new federal IDEA funds that offset state General Funds costs, and with \$23.6 million in local property taxes and \$9.3 million in state General Funds.

The level of the federal funding offset in 2004-05 will change when the Administration adds the \$65.0 million in additional federal funds to the budget at May Revise. It is not clear how the Administration will propose to use these funds. According to the DOF, an additional \$11.5 million in federal funds can be used as

an offset without creating maintenance of effort problems. (In addition to the \$74.5 million already proposed in the Governor's Budget, this would bring the total offset to \$86.0 million in 2004-05.)

The LAO supports the Governor's January 10 proposal to use \$74.5 million in federal IDEA funds as an offset to special education growth and COLA costs in 2004-05. With regard to additional federal IDEA funds available at May Revise, the LAO's first priority is to use any new federal funds to further offset state General Fund growth and COLA expenses in 2004-05. Specifically, the LAO recommends using an additional \$11.5 million in federal funds --the maximum allowable -- to offset state general fund costs for growth and COLA. This would leave \$53.5 million in new federal funds for other purposes.

As a second priority, the LAO has identified several possible purposes for the remaining \$53.5 million:

- Provide additional funding for educationally related, mental health services for students with disabilities pursuant to AB 3632. The 2004-05 Budget continues \$69 million in federal funds that were added to the 2003-04 Budget for these federally mandated services, which are currently provided under agreements with county mental health agencies.
- Augment funding as a part of reforms to the state funding formula for students receiving special education services who reside in foster care, as recommended by a legislatively required study published by AIR in March 2003. The study recommends implementation of a placement-neutral funding formula that removes strong incentives for placing students in non-public schools and allows districts to access state special education funding for students they serve. The study also recommends a formula that recognizes costs for all students in special education who reside in foster care, not just those in non-public schools.
- Update the "incidence adjustment" as recommended by another legislatively-required study by AIR, as published in August 2003. The incidence adjustment accounts for high cost disabilities as a part of the AB 602 funding model, which is based on the level of the general school population.

Staff recommends that the Subcommittee consider two of the options identified by the LAO – (1) LCI-NPS/NPA funding reforms to accompany SB 1316 (Alpert) and (2) additional funding for mental health, related services tied to SB 1895 (Burton).

LCI-NPS/NPA funding augmentations and reforms are discussed in the next section. Proposals to augment and reform funding for AB 3632 services are still under development as a part of a Senate working group and will be discussed at a future Subcommittee hearing.

Staff further recommends that the Subcommittee delay any action on the recommendations of the incidence adjustment study by AIR until next year. There are several reasons for this recommendation. First, the state already adopted an initial incidence adjustment pursuant to recommendations of the 1998 AIR study required by AB 602. The latest AIR study is intended to update the adjustments now in place. Secondly, the latest AIR recommendations would make substantial changes to definitions, costs, and allocations for the incidence adjustments now in place among districts that. Given their complexity, these changes require further study. In addition, the recommended revisions to the incidence adjustment interact with the recommended LCI-NPS/NPA funding reforms in ways that are not well understood and also require study and development. For this reason, it makes sense to sequence changes to the incidence adjustment after implementation of proposed LCI-NPS/NPA reforms in order to minimize both costs and unintended consequences. Staff notes that because the existing incidence adjustment expires at the end of the fiscal year, budget bill language is needed to continue the existing formula in the budget year. DOF indicates such a provision is likely to be included as a part of May Revise.

B. LCI –NPS/NPA Funding Formula

Presentation by Tom Parrish, American Institutes for Research on *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes*, March 2003.

As identified by the LAO, implementation of the funding reforms contained in the AIR study is one of several options the Subcommittee may wish to consider in appropriating additional federal special education funds in 2004-05.

Youth with Disabilities in Foster Care

Under current statute, the state provides full funding (100 percent reimbursement) for the non-public school (NPS) or non-public agency (NPA) costs for students who were placed in an licensed children's institution (LCI) by a non-education agency. This formula is referred to as the "LCI –NPS/NPA formula".

Under the formula, LCIs are defined broadly to include foster youth in group homes, foster family agencies, foster family homes, residential medical facilities and other similar facilities (Education Code Section 56836.16).

The non-education agencies making the placements are most often the courts -- social services or probation -- but also include a small number of regional center placements. Children in foster care are classified by the courts as dependents in the case of abuse or neglect or as wards in the case where they have violated the law.

Non-public schools are privately operated, publicly funded schools certified by the state Department of Education. State and local funding for non-public schools is only available for special education students. There are approximately 369 non-public schools certified in California.

There are approximately 15,000 students receiving special education services who reside in foster care settings in California. Of these students, approximately 4,700 attend non-public *schools* that receive state LCI-NPS/NPA funding (100 percent reimbursement) through LEAs. An additional number of students receive non-public *agency* services that are also reimbursed by the state under the 100 percent formula.

State LCI-NPS/NPA funding is *not* available to LEAs who provide special education to students who reside in foster care settings, but who do not receive services from non-public schools or agencies.

History of LCI-NPS/NPA Funding Studies

AB 602, as enacted in 1997, implemented major special education funding reforms directed to simplify the funding model, equalize funding among schools districts and allow more flexibility in the use of funds to better serve students.

AB 602 removed fiscal incentives for NPS schools by eliminating state subsidies (70 percent reimbursement) when LCI placements were made by education agencies. However, the new formula retained full subsidy (100 percent state reimbursement) for NPS placements if the student was placed in an LCI by a non-education agency, and the parents rights were removed, or if the placement was located outside of the parent's district of residence.

While the reforms contained in AB 602 were comprehensive, several of the more complicated elements of the new funding required more study and could not be

addressed in the bill. Changes to 100 percent funding for LCI-NPS placements was one of these issues. As a result, AB 602 included three studies to address issues that needed further study and development before they could be added to the new funding system. These three studies addressed the following issues:

- Compliance -- Study to address possible improvements in special education system accountability to offset greater flexibility under the new funding formula.
- Incidence Adjustment -- Study to evaluate possible variation in distribution of students with low-incidence, high cost disabilities and possible adjustments in the formula.
- Licensed Children's Institutions-Non-Public Schools/Agencies -- (LCI-NPS/NPAs) Funding -- Study to address continuing incentives under the new funding formula for children residing in Licensed Children's Institutions (LCIs) and served by Non-Public Schools and Agencies (NPS/NPAs).

With regard to the LCI-NPS/NPA funding formula, an initial study was completed in September 1998 by the American Institutes of Research (AIR). The study included a number of recommendations, including the removal of all fiscal incentives for serving students in foster care in non-public schools. The study, limited by time and funding, was unable to develop an alternative funding plan and recommended that a follow-up study be conducted to develop such a specific funding plan.

Following this study, the 1999-00 Budget Act directed the DOF, CDE and LAO to convene a working group to review funding for LCIs, including NPS/NPA services for these students. The three agencies were to report to the Legislature on any recommended changes in status or funding for LCIs or NPS/NPAs by November 1, 1999. However, due to critical staffing changes the three agencies were unable to complete the report.

As a result, the 2000-01 Budget Act appropriated \$1 million for an independent evaluation of funding for LCI's, including NPS/NPA services for children residing in these institutions. The contract for this study was awarded to American Institutes for Research (AIR) in late 2001. The final report entitled *Policies, Procedures, and Practices Affecting the Education of Children Residing in Group Homes* was released by CDE in March 2003.

Recommendations of the AIR Study:

The AIR study made two key findings:

- California has a flawed system for funding educational services for youth living in group homes, foster family homes and foster family agency homes.
- The system for ensuring high-quality, appropriate educational services for youth residing in group homes has a number of problems.

With regard to the funding system, the AIR study's primary concern was that school districts have strong financial incentives to place foster youth into special education programs provided by non-public schools. When foster youth in special education are served by non-public schools and agencies LEAs receive 100 percent funding; when school districts provide services no additional funds are provided. This situation creates a number of significant problems identified by the AIR study:

1. The funding formula violates important provisions of federal law requiring youth in special education to receive services in the least restrictive environment appropriate to their educational needs, and it denies these students access to the same educational opportunities as youth without disabilities.

2. Under the current 100 percent reimbursement system, LEAs lack appropriate incentives for controlling costs. Also under the state funding system, LEAs may take less responsibility for overseeing services and outcomes for students.

In response, the AIR study proposes a new model for funding special education services for youth residing in foster care that is independent of whether or not they are served by non-public schools or agencies. Under the recommended formula, special education funds would be allocated based on the number of foster beds in the LEA. Specifically, the formula recommends using group home bed capacity and average annual counts for foster family home and agency youth to defined foster beds.

Under the recommended formula, bed counts would be weighted differently – from one to eight – within five separate formula tiers. Group home beds would be grouped in tiers based upon their rate classification level (RCL). Foster family homes would be given a weight of one; foster family agencies would be given a weight of two.

While the formula would be based upon total foster beds, special education funding would only be available for youth with disabilities eligible for special education.

The formula recommended by AIR proposes to increase special education funding under the AB 602 formula by approximately \$52.1 million to reflect the average costs of providing special education services to the 15,000 students in special education residing in foster care. Additional funding of \$13.8 million is recommended to hold LEAs harmless from any funding losses that would otherwise result from changes in the formula. This would bring total new funding to \$65.9 million, above the \$120 million provided for the program at the time of the study.

A Senate working group convened last fall has been working on some refinements to the funding formula recommended by AIR. These refinements have focused on (1) verifying data adding any missing bed counts for placements eligible for funding under the existing formula and (2) refining the relative weights among different kinds of foster beds to better reflect costs.

Related Legislation:

The AIR study makes numerous findings about the lack of state and local oversight of students with disabilities placed in non-public schools. In response, most of the report's recommendations address improvements in accountability for non-public schools serving youth with disabilities. **The report emphasizes that the recommendations associated with improving accountability are “essential” for the success of the alternative funding formula.**

Several bills have been introduced this year in the Legislature that propose changes in state law to implement recommendations from the AIR study.

Two of these bills -- SB 1316 (Alpert) and AB 1858 (Steinberg)—implement major provisions of the AIR study tied to higher educational standards, increased state and local oversight, and improved accountability for non-public schools. The goal of these bills is to require non-public schools – serving students with disabilities and funded by the state -- to meet the same standards as public schools.

SB 1510 (Alpert) requires teachers at non-public schools to possess valid teaching credentials and requires that students have access to standards-based, core

curriculum and instructional materials, as well as, state and local assessments. The bill also requires the Department of Education to monitor non-public schools every two years instead of every four years, and to include these schools in a variety of existing state and local data, reporting, assessment and accountability systems for public schools and districts.

SB 1510 is also intended to accompany any changes in the LCI-NPS/NPA funding formula approved by the Legislature, with the intent that such a new funding structure is:

- (1) fiscally neutral to the type of educational placement necessary and best suited for the student; and
- (2) allows public schools to access funding currently available only for non-public schools and agencies in serving individuals with exceptional needs residing in foster care.

The Governor Budget proposes to continue the existing LCI-NPS/NPA formula in 2004-05. The budget includes \$129.4 million in General Fund dollars for this formula, which provides an increase of \$3.7 million over the 2003-04 budget. It is not known whether the Administration is considering the AIR recommendations as a possible use of the additional \$53.5 million in federal funds available for new purposes in 2004-05.

A Senate working group, with guidance from study AIR staff, is currently working on refinements to the AIR recommended funding formula. The revisions appear to minimize “win and losses” among local agencies and lower additional costs somewhat. Final data from the working group is expected by May. When the Subcommittee will consider all options for appropriating additional federal funds in 2004-05.

Staff notes there is a great deal of urgency for making changes to the LCI-NPS/NPA formula – as contemplated by AB 602 -- to allow more flexible funding, assure less restrictive education settings, improve school accountability, and most importantly to improve options for students with disabilities in foster care.

As noted in the AIR study, the population of youth residing in foster care is very vulnerable and has extraordinary needs. With access to high quality services and adequate oversight, at risk for poor educational achievement, unemployment, public assistance, and incarceration.

Under the current formula school districts have no access to funds for providing special education services if students are not served by non-public schools or agencies. This creates problems for school districts when non-public schools close. This was the case in the Sweetwater Union School District where a local non-public school was closed under court advisory following the death of a student at the non-public school. The Sweetwater district took over the provision of education services, but the funding formula created no source of funding for the district to serve these students. The 2001-02 Budget Act provided \$1 million in special funding in order to allow Sweetwater to continue services. This funding has continued since then. The Governor's Budget 2004-05 proposes continuation of this funding item. Reportedly, there are non-public schools in other districts that face possibility of closure.

For all the reasons cited above, staff recommends that the Subcommittee appropriate some of the additional federal IDEA funds that are identified at May Revise to begin the process of phasing in changes to the LCI-NPS/NPA formula as recommended by the AIR study. Since these changes will require statutory changes, staff further recommends that changes to the funding formula be subject to SB 1510 (Alpert), or other legislation pending this year that implements the alternative funding model, as recommended by the AIR study.

Staff further recommends that changes to the formula allow school districts to access funds and hold school districts harmless, as recommended by the AIR study. In addition, staff recommends that the final formula lower the weights for foster family home and agency youth counts as recommended by LAO, and include regional center placements, as appropriate.

Staff also recommends, that special funding for the Sweetwater Union School District be phased-out beginning in 2004-05 as additional funding under a new special education funding formula for youth residing in foster care placements is made available to the district.

In addition, staff recommends that CDE report to the Subcommittee at its May 10th hearing on the number of department staff currently assigned to NPS certification and the number of additional staff necessary to assure that the department visit NPSs at least once every two years.

Similarly, staff recommends that the LAO gather data on the level of federal IDEA funds appropriated for state level activities in the Governor's Budget in 2004-05, and the specific programs and positions funded with these dollars.

Lastly, staff recommends that any changes to the LCI – NPS/NPA funding formula be accompanied by policy legislation that implements the accountability recommendations of the AIR study. According to the AIR study, “without incorporation of these accountability measure, there is a real danger that the more flexible funding approach recommended in this report could simply result in an overall decline in the number and quality of services available to youth in foster care.” The AIR report clearly states that the study team would not have recommended the alternative funding model “without the added accountability recommendations to ensure the provision of appropriate education services to the foster care population.”

C. April Finance Letters – Special Education Items

The April 1, 2004 budget letters from the Department of Finance propose two sets of changes to the Governor's January 10 Budget that are related to federal funds for special education. These two items are presented below:

1. 6110-001-0890, Evaluation of Family Empowerment Centers on Disabilities (Issue 201)

It is requested that \$180,000 be provided for the State Department of Education to contract with an outside entity for the evaluation of 12 Family Empowerment Centers on Disabilities.

It is requested that Provision (X) be added to this item to conform to this action:

(X) Of the funds appropriated in this item, \$180,000 is available for the contract with an outside entity to evaluate 12 Family Empowerment Centers on Disabilities pursuant to Chapter 690, Statutes of 2001.

Staff recommends approval of this item. This study was required by SB 511 (Chapter 690; Statutes of 2001), which established the Family Empowerment Centers. The bill did not provide funding for the evaluation study.

Adopted April DOF letter – Vote: Yes – Scott, Margett, Vasconcellos, (3-0)

2. 6110-161-0890, Special Education (Issues 200, 203)

It is requested that this item be increased by a total of \$2,906,000, including \$363,000 to reflect an increase in the Capacity Building Schedule as the result of a technical error and \$2,543,000 for additional local assistance carryover authority for 2002-03 federal IDEA funds.

It is requested that Schedules (1) and (4) of this item be amended to conform to this action:

“(1) 10.60.050.012-Local Agency Entitlements, IDEA Special Education..\$871,676,000
\$874,219,000

(4) 10.60.050.021-IDEA, Capacity Building, Special Education....\$72,857,000 \$73,220,000”

Staff recommends that the Subcommittee not take any action on this item at this time and that this item remain open until May Revise when the Subcommittee considers the Governor’s proposes other budget changes to federal special education budget items. No Action.

IV. Assessment and Accountability

A. No Child Left Behind Update (NCLB)

➤ Presentations by State Board of Education & California Department of Education on NCLB Implementation

Background: In January 2002, President Bush signed legislation re-authorizing the Elementary and Secondary Education Act (ESEA). The newly signed law –No Child Left Behind Act (NCLB) of 2001– makes sweeping changes to the previous Title I program under the ESEA law.

California is slated to receive nearly \$3.1 billion in federal fiscal year (FFY) 2004 for federal elementary and secondary education programs authorized under NCLB. This represents an increase of \$197. 7 million for programs authorized under No Child Left Behind -- including Title I programs -- in 2004-05.

The Subcommittee will consider the following budget items appropriating federal funds for two programs – Title I and Title VI -- authorized under the No Child Left Behind Act of 2002 (NCLB). These programs provide important new funding to states in meeting the requirements of the new federal law.

Staff recommends that the Subcommittee ask the Department of Education and Department of Finance to present their current expenditure proposals for Title I – Set-Aside funds and Title VI Assessment funds in the budget year.

Staff further recommends that the Department of Finance present final expenditure plans for both of the Title I and Title VI programs at the Subcommittee’s May 10th hearing. Such plans would be useful to clarify the

precise elements of the Governor's Budget proposals and changes to the budget currently underway. In addition, these plans would be useful in addressing the LAO's concerns about the possible loss of unspent Title I and Title VI federal funds in 2004-05.

B. Title I – Part A Set-Aside Funds for School Improvement (6110-136-0890)

Background: Federal law requires that states set-aside two percent of their Title I, Part A funds for school improvement purposes. These funds are to be used to assist schools, i.e. provide interventions and sanctions, identified as program improvement schools. **The two percent set-aside requirement in previous years grows to four percent in 2004-05.**

Budget Action/Issues:

The 2004-05 budget provides approximately \$32.9 million in new Title I set-aside funds for school intervention programs. This brings total, ongoing federal funding for Title I set-aside programs to \$65.7 million in the budget year – nearly double the amount currently available annually for school improvement. This increase is possible because the required federal set-aside grew from two to four percent.

In addition, because the state has not spent all of its Title I set-aside funds in the last two years, the state has accumulated significant additional funds that are available for expenditure in the 2004-05.

The table below, as prepared by the LAO, summarizes total funding available and expended for the Title I Set-Aside program.

Federal Accountability Funding for School and District Interventions

<i>Dollars in Millions</i>	2002-03 Actual	2003-04 Estimated	2004-05 Proposed
Funds Available	29.1	48.3	98.1
Expenditures	13.6	15.9	19.1
Carryover	15.5	32.5	79.0

The LAO has raised strong concerns about the possible loss of approximately \$13 million in unallocated Title I available for school and district interventions to assist low-performing schools in the budget year. For this reason, the LAO recommends that the Legislature require CDE and DOF to provide a

comprehensive plan on how the funds will be used to assist low-performing schools and districts.

CDE and DOF have been working on the development of such plans, although a final plan is not expected until May Revise. It is not clear if the Administration's plan will be tied to legislation or not.

An Assembly working group has been considering a number of reforms to the state's accountability system that would be funded with new Title I Set-Aside. These reforms would be tied to legislation – AB 2066 (Steinberg) and would establish new district level accountability programs, among other provisions.

Questions for DOF and CDE:

- *What assurances can DOF and CDE provide that the state will not lose any unspent federal Title I Set-Aside funds in the 2004-05?*
- *What is the final plan for spending Title I Set-Aside funds in the budget year, particularly as it relates to utilizing one-time carryover funds?*
- *Are DOF and CDE in agreement about funding to establish a new district-based accountability, as required by NCLB?*
- *Are the Governor's proposals for establishing district based accountability tied to any specific budget trailer bills?*

C. Title VI – State Assessments (6110-113-0890)

Background: The Title VI program provide states with funds to help cover the costs of meeting the assessment and data requirements of NCLB, including developing or improving assessments, developing curriculum and performance standards, expanding testing accommodations for English learners and students with disabilities, developing student data systems to track achievement and other indicators – such as graduation rates – required by NCLB, and increasing local capacity for improving student achievement.

Budget Action/Issues:

2004-05 Funding. The Governor's Budget provides appropriates \$32.0 million in 2004-05 for the Title VI program. This is an increase of \$4 million above the revised 2003-04 amount.

Title VI Programs & Proposed Funding	Jan 10 Budget	April Finance Letter
Alternative Schools Accountability Model	775,000	775,000
STAR Program	8,099,000	8,549,000
STAR Test Development		535,000
NCLB Longitudinal Data Base	2,272,000	2,272,000
CELDT – Incentive Funding	7,100,000	10,156,000
High School Exit Exam Workbooks	2,500,000	2,500,000
California Alternate Performance Assessment	2,200,000	2,200,000
High School Exit Exam Evaluation	498,000	498,000
CELDT Vertical Scaling Project	300,000	300,000
Assessment Reporting and Review	400,000	400,000
CSIS Local Grants		1,947,000
CSIS Administration		299,000

The final 2003-04 budget provided \$16.2 million in unallocated funding for Title VI programs. The budget included provisional language tied to the appropriation that established a process for expending these set-aside funds. This process required the CDE to submit an expenditure plan to DOF and the Joint Legislative Budget Committee. The Department of Finance disapproved CDE's initial expenditure plan submitted last November, but partially approved a revised plan in January of this year.

The DOF has recently approved additional Title VI expenditures that should soon be official. DOF will update the Subcommittee on the status of the expenditure plan for the set-aside funds at today's hearing. In total, it appears that DOF has approved \$12 million of the \$16.2 million appropriated for set-aside. This leaves roughly \$4 million in unallocated funds that could be directed to other purposes in 2004-05.

The LAO has raised strong concerns about the possible loss of Title VI funding in 2004-05 as proposed by the Governor. According to the LAO, the state faces the possibility of losing approximately several millions of dollars in federal Title VI funds if they are not expended by September 30, 2004. Federal rules for Title VI require states to expend federal funds within 27 months of the fiscal year for which they were received. Under these same federal rules, unexpended Title VI funds must be returned by states to the federal government. The LAO is concerned that some of \$29 million in Title VI funds first appropriated for the program in 2002-03

may not all be spent by September 30th. The Title VI program has been characterized by large carryover funding in the first two years of the program.

In response the LAO recommends that the Legislature adopt trailer bill language to appropriate \$8 million in unspent Title VI funds for the California English Language Development Test (CELDT) in 2003-04. This would remove any threat of losing federal funds in 2004-05.

Questions for DOF and CDE:

- *What assurances can DOF and CDE provide that the state will not lose any unspent federal Title VI funds in the 2004-05?*
- *What is the final plan for spending Title VI State Assessment funds in the current and budget years?*
- *How does DOF and CDE propose to use approximately \$4 million in unallocated funds from the current year?*

D. Title VI Federal Funds – State Assessments – April Finance Letters

The April 1, 2004 budget letters from the Department of Finance propose a number of revisions to the Governor's January 10 Budget that are related to federal Title VI funds. These revisions are listed below.

Staff recommends that the Subcommittee hold these items open until the May 10th when more formal information is available from the Administration about how it proposes to expend federal Title VI funds in the 2004-05. No Action.

6110-113-0890, Local Assistance, Federal Title VI Flexibility and Accountability (Issues 152, 153, 155, 156, and 179)

- **Issue 152: California English Language Development Test Contract**—It is requested that Schedule (5) of this item be increased by \$563,000 for the purpose of making a technical adjustment to align program funding with current contract requirements. This request would restore the funding level to fully fund the contract for this program.
- **Issue 153: California English Language Development Test Apportionment**—It is requested that Schedule (5) of this item be increased by \$2,493,000 for apportionment funding to accommodate the additional 498,600 pupils projected to take the California English Language Development Test in 2004-05.
- **Issue 155: Standardized Testing and Reporting (STAR) Item Development**—It is requested that this item be increased by \$535,000 by adding Schedule (2.5) to ensure there

are sufficient test items for the STAR exam. The SDE will begin an annual release of 25 percent of the test items used in the most recent California English-language arts, mathematics and science California Standards Tests to the public. Since these items will no longer be used on future STAR tests, the continuous development of new items is necessary.

- **Issue 156: STAR Restoration Funds**—It is requested that Schedule (2) of this item be increased by \$450,000 to restore funding for STAR pre-test workshops and the STAR Technical Assistance Center that was reduced as part of the General Fund unallocated reduction to the various testing programs in 2003-04. This funding will provide technical assistance to school districts in administering the STAR exam and ensure that the required demographic fields on the exams are filled out properly.
- **Issue 179: Local Assistance for the California School Information Services (CSIS)**—It is requested that this item be increased by \$2,246,000 by adding Schedule (11) for \$1,947,000 and Schedule (12) for \$299,000. This funding will provide \$1,947,000 for the first of two years of funding for local implementation costs of a new CSIS cohort and \$299,000 for CSIS central operations for hardware and software to accommodate the new cohort.

It is also requested that schedules 2.5, 11, and 12 be added to this item and that Schedule 2 be amended as follows:

“6110-113-0890—for local assistance, Department of Education-Title VI Flexibility and Accountability, payable from the Federal Trust Fund.....~~32,028,000~~
 38,315,000
 Schedule:
 (2) 20.70.030.006-STAR Program.....~~8,099,000~~ 8,549,000
 (2.5) 20.70.030.016-Test Development: STAR Exam.....535,000
 (5) 20.70.030.018-Incentive Funding—CELDT.....~~7,100,000~~ 10,156,00
 (11) 20.90.001.010-CSIS Local Grants.....1,947,000
 (12) 20.90.001.020-CSIS Administration.....299,000”

It is further requested that conforming provisional language be added as follows:

X. The funds appropriated in Schedule (2.5) of this item shall be available for test item development for the STAR program during the 2004-05 fiscal year. The test items developed with these funds shall make progress in aligning this exam with the State Board of Education-approved academic content standards and in ensuring that this exam is valid and reliable as measured to industry standards.

X. Of the funds appropriated in Schedule (5) of this item, \$563,000 shall be available for approved contract costs for administration of an English language development test meeting the requirements of Chapter 7 (commencing with Section 60810) of Part 33 of the Education Code.

X. The funds appropriated in Schedule (11) of this item are available for the first-year implementation costs of a new CSIS cohort.

X. The funds appropriated in Schedule (12) of this item are available for CSIS central operations costs for new hardware and software to support the new cohort.

E. State Accountability Programs

The Immediate Intervention in Underperforming Schools Program (II/USP) was created in 2000 as part of the Public Schools Accountability Act (PSAA). The program allows schools in the lowest half of the state's Academic Performance Index ranking --Deciles 1-5 Schools -- to develop a school improvement plan. II/USP schools receive \$200 per ADA for up to three years. These schools must show progress toward meeting state improvement goals or face sanctions or state interventions.

The High Priority Schools Grant Program (HP) was created in 2001 and focuses on schools in the lowest 10% of the state's API ranking – Decile 1 Schools. Participating HP schools must also develop improvement plans and receive \$400 per student for up to a four-year period.

The Governor's budget proposes to reduce funding for the II/USP and HP programs by \$102.2 million in 2004-05. This reduces funding for II/UPS by \$76.8 million and funding for the HP program by \$25.4 million in the budget year, as indicated by the table below.

These reductions are the produce of program savings that result from two factors: (1) schools that entered the programs in earlier years have “timed out” of the program and their grants are expiring, and (2) the state has not funded grants for new schools since 2002-03. For the budget year, the Governor proposes funding for II/USP schools in Cohorts 2 and 3; Cohort 1 schools are not longer eligible for funding.

Funding for II/USP and HP Programs
(Dollars in millions)

Program	2001-02	2002-03	2003-04	2004-05 Proposed
II/USP	\$161	\$151.4	\$129.8	\$ 53
High Priority Schools Grant Program	\$200	\$172	\$218.4	\$193

The LAO does not have any objections to these reductions.

F. Budget Trailer Bills

- **District Accountability** – The Administration has developed language to provide for assessment of district-wide academic performance and provide sanctions for consistently low-performing districts. Sanctions would include interventions such as are not provided for low-performing schools and restrictions on management compensations. According to DOF, these provisions were going to be added to AB 2824 (Runner), the categorical reform bill sponsored by the Administration. The bill is currently being held in Assembly Education Committee.
- **1448 (Alpert) – Norm-Referenced Test Reductions in the 2004-05 Budget.** This bill reauthorizes the STAR program currently set to repeal on January 1, 2005. This bill also includes provisions that reduce the NRT tests – currently the CAT/6 –to the 3rd and 7th grade in order to conform to the \$6.5 million reduction for the STAR program in the Governor’s Budget for 2004-05. This reduction was agreed to as a part of the 2003-04 budget package.

V. Education Mandates

Background: The California Constitution, as amended by Proposition 4 in 1979, requires the state to reimburse local agencies for costs incurred in complying with certain state-mandated education programs.

For K-12 education, this law provides for the reimbursement of costs incurred by school districts and county offices of education for any increased costs incurred after July 1, 1980 as a result of any statute enacted after January 1, 1975, which mandates a new program or a higher level of service for an existing program.

The Commission on State Mandates decides whether a statute creates a state-reimbursable mandate, and if so, estimates the statewide cost of the mandate. School districts and county offices of education then file reimbursement claims with the State Controller’s Office – detailing costs actually incurred. Once audited and approved, the SCO makes payments for these claims from funds appropriated by the State Budget Act, the State Mandates Claims fund, or specific legislation.

In the event the appropriation is insufficient to pay claims in full, claimants will receive prorated payments in proportion to the dollar amount of approved claims

for the program. Balances of prorated payments will be made when supplementary funds are made available.

The Government Code requires the state to pay interest (at the Pooled Money Investment Account rate) when paying overdue mandate claims to local agencies.

According to the LAO, the amount budgeted for K-12 mandates has been historically under-funded. This under-funding, coupled with recent decisions to defer payments for mandates, brings current state mandate liabilities – past year and ongoing – to approximately \$1 billion. However, the actual costs are not fully known since education mandate claims have not been fully audited.

The practice of deferring mandates does not reduce costs to the state – the costs remain and accumulate with interest. In this way, mandates are not like state grants where the amount paid out is discretionary on the part of the state. The claims, once audited and approved, must eventually be paid in full by the state. In addition, deferrals do not free local agencies from the need to comply with the mandates.

Budget Items/Actions:

A. Mandate Funding Deferrals:

The Governor proposes to defer funding for education mandates in 2004-05. Technically, the budget appropriates \$1,000 for 39 separate mandates the Governor proposes to defer and zero funding for five mandates the Governor proposes to suspend in the budget year. The Governor's proposal is consistent with budget actions in recent years that have utilized mandate cost deferral – inside and outside of education – as a temporary budget solution.

The annual cost for mandate reimbursements is estimated by the LAO at over \$300 million alone in 2003-04. Given ongoing liability of over \$1 billion in 2003-04, the LAO estimates the state's liability for ongoing, unpaid claims is estimated to exceed \$1.6 billion by the end of 2004-05.

The Governor and Legislature have been silent on when these deferrals will be paid back. By deferring reimbursement of mandate claims, the state is not eliminating its obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. According to the LAO,

the state has paid \$48.6 million in interest on the unpaid mandates through last year.

The Governor's Budget recognizes 39 ongoing mandates that LEAs can claim reimbursements for in 2004-05. (See Appendix C – page 44, for full list of mandates.)

The 39 mandates proposed by the Governor in 2004-05 include eight new mandates, recently approved by the Commission on State Mandates: 1) Peace Officer's Procedural Bill of Rights, 2) Financial and Compliance Audits, 3) Physical Education Reports, 4) Health Benefits for Survivors of Peace Officers and Firefighters, 5) County Office of Education Fiscal Accountability Reporting, 6) Employee Benefits Disclosure, 7) School District Fiscal Accountability, 8) Photographic Record of Evidence and 9) the Standardized Testing and Reporting (STAR) Mandate.

B. Mandate Exclusions/Suspensions:

Exclusions:

The Governor's Budget does not recognize the STAR mandate because it believes the claims far overstate real costs, and proposes to delay recognition until claims are audited. The Commission on State Mandates recently approved STAR mandate claims from the year 2001-02 totaling \$36 million. If recognized and upheld as a legitimate mandate, these totals would be expected to climb substantially as more districts file claims.

The Administration proposes auditing claims for the STAR mandate before it recognizes and funds the mandate. It does not appear that the state can appeal the mandate as the three-year window for appeal by DOF has expired.

The LAO recommends that the Legislature adopt trailer bill language requesting the Commission on State Mandates to reconsider its decision on the STAR program mandate to clarify whether the federal testing requirement would reduce the scope of the state-mandate costs and to address the issue of offsetting costs.

Suspensions:

Mandate costs can be reduced through elimination or suspension of specific mandates. The Governor proposes to suspend five total mandates in 2004-05,

including School Crimes Reporting II, School Bus Safety II, Law Enforcement Sexual Harassment Training, County Treasury Oversight Committee, and Investment Reports. This action requires an amendment to Section 17581.5 of the Government Code. The Administration has proposed budget trailer bill language to accomplish this.

The LAO recommends elimination of the Physical Education Reports mandate and the Employee Benefits Disclosure mandate because they are both unnecessary. Elimination would result in savings of at least \$500,000 annually.

Staff notes that the Assembly Special Committee on State Mandates has reviewed a number of long-standing mandates affecting school districts and local governments. Its recommendations are contained in Appendix D – page 45. If adopted, these recommendations would significantly reduce the state's future mandate obligations.

C. Mandate Reforms

The Administration is concerned about state audits of education mandate claims that found high rates of disallowable costs. In response, the Administration proposes legislation to reform state law governing mandates and address the new and ongoing state liability for these mandates.

The reforms sought by the Administration would: (1) allow the legislature to limit mandate costs through the annual budget act; (2) require the Legislature to approve reimbursement guidelines and cost estimates before they are finalized by the Commission on State Mandates; (3) limit reimbursements to the least costly approach; and (4) increase audits of mandate claims.

The LAO proposes a number of reforms related to the mandate reimbursement process. In particular, it proposes the following specific recommendations:

Federal Mandate Exclusion: *The LAO recommends that the Legislature broaden the federal mandate exclusion so the Commission on State Mandates could waive state reimbursements any time federal law requires the same local programs -- regardless of whether the federal requirement predates the state mandate. This would result in significant savings for the STAR mandate and other potential new mandates.*

***Offsetting Revenues:** The LAO notes that several new mandates are offset by categorical programs that the state provides for a similar purpose. The LAO recommends that the subcommittee adopt budget bill language for the following budget items to require districts to use funds from these programs to first satisfy any related mandated costs: 1) State and federal testing programs, 2) County Offices of Education Fiscal Oversight, and 3) Remedial education programs. The LAO also recommends the Legislature adopt trailer bill language requiring the Commission to make modifications to the new county office fiscal oversight mandate to consider existing state funds as offsetting revenue.*

Budget Trailer Bill Language

- **Mandate Reforms** – The Administration proposes a number of statutory changes to limit new and ongoing state liability for these mandates. The Administration has provided the Subcommittee with proposed language that will be included in a stand-alone policy bill. (See Attachments)
- **Education Mandates Suspensions** – Suspends three additional education mandates including Investment Reports, Law Enforcement Sexual Harrassment Training, and County Treasurer Oversight Committees. Two mandates – School Bus Safety II and School Crimes Reporting II – were already suspended in 2003-04. This language is being proposed as a part of the omnibus budget trailer bill. (See Attachments)

VI. April Finance Letters –Governor’s Revisions to the Proposition 98 Agreements

The April 1st Finance Letter provides formal notification of adjustments to the Governor’s January 10 Budget that implement the revised agreements between the Governor and the “education community” on Proposition 98 priorities. These pending adjustments were discussed at the Subcommittee’s March 15th hearing. (See Appendix E – page 54.)

Staff recommends no action on the following items. These are major budget items that relate to funding within Proposition 98 and these items should remain open until the Subcommittee is ready to take action on the level of Proposition 98 funding and the allocation of funds within Proposition 98 in 2004-05. No Action.

1. 6110-188-0001, Deferred Maintenance (Issue 651)

It is requested that Item 6110-188-0001 be reduced by \$173.3 million to reflect an agreement between the Administration and the education community to fund this item at the current year level.

2. 6110-189-0001, Instructional Materials Block Grant (Issue 653)

It is requested that Item 6110-189-0001 be reduced by \$188.0 million to reflect an agreement between the Administration and the education community to fund this item at the current year level.

3. 6110-230-0001, Funds for Distribution for K-12 Growth & COLA (Issue 654)

It is requested that Item 6110-230-0001 be added and funded at \$53,157,000 to reflect an agreement between the Administration and the education community to provide growth and COLA adjustments for programs that are not funded to receive full growth and COLA adjustments.

It is further requested that conforming provisional language be added as follows:

Provisions

1. Funding in this item is for growth and cost-of-living adjustments for allocation to Items 6110-103-0001, 6110-107-0001, 6110-108-0001, 6110-109-0001, 6110-111-0001, 6110-113-0001, 6110-119-0001, 6110-120-0001, 6110-121-0001, 6110-122-0001, 6110-123-0001, 6110-124-0001, 6110-125-0001, 6110-127-0001, 6110-131-0001, 6110-139-0001, 6110-151-0001, 6110-158-0001, 6110-164-0001, 6110-166-0001, 6110-167-0001, 6110-181-0001, 6110-189-0001, 6110-191-0001, 6110-193-0001, 6110-195-0001, 6110-197-0001, 6110-198-0001, 6110-201-

0001, 6110-203-0001, 6110-208-0001, 6110-212-0001, 6110-224-0001, 6110-226-0001, 6110-228-0001, 6110-232-0001, 6110-235-0001, 6110-240-0001, 6110-243-0001, and 6110-280-0001.

2. Funding in all items listed in provision 1, except 6110-108-0001, 6110-158-0001, 6110-232-0001, and 6110-234-0001 shall be adjusted for growth by 1.02 percent. Funding for Items 6110-108-0001, 6110-158-0001, 6110-232-0001, and 6110-234-0001 shall be adjusted by the change in eligible participants for the programs funded in those items. Funding for all of these items shall be adjusted by 1.84 percent for cost-of-living except Item 6110-158-0001 which shall be adjusted by the statutory rate of 1.96 percent.

4. 6110-601-0001, School District Revenue Limit Equalization (Issue 050)

It is requested that Item 6110-601-0001 be reduced by \$27,770,000 to reflect a decline in funding for revenue limit equalization from \$109,914,000, to \$82,144,000. The appropriation for this issue will be made in SB 1298.

5. 6110-601-0001 and 6110-608-0001, School District and County Office of Education Deficit Factor (Issue 051)

It is requested that Item 6110-601-0001 be increased by \$264,813,000, and that Item 6110-608-0001 be increased by \$5,276,000, to reduce the deficit factor applied to school district and county office of education revenue limits. It is estimated that these adjustments will reduce the 2003-04 base deficit factor from approximately 1.2 percent, to approximately 0.3 percent. This change will be made through budget trailer legislation. No change is proposed to the 1.8 percent deficit factor related to the 2003-04 COLA adjustment.

VII. April Finance Letters – Other Issues

The following revisions to the Governor's January 10 Budget are proposed by the April 1, 2004 budget letters from the Department of Finance. These items are itemized for separate vote because they require special action or contain increases in state agency positions. No issues have been raised with regard to any of these items.

Staff recommends approval of each of the following items.

1. 6110-001-0890, State Operations (Issue 150)

- **Issue 150: Staff for Adequate Yearly Progress and Program Improvement**—It is requested that this item be increased by \$93,000 and that one Education Research and Evaluation Consultant position be approved to process and monitor statewide assessment data for determining Adequate Yearly Progress and identifying Program Improvement schools. **Motion to adopt failed. No Action.**

2. 6110-125-0890, Language Acquisition and Migrant Education (Issues 006 and 009)
Adopted April DOF letter. Vote: Yes – Scott, Margett, Vasconcellos (3-0)

It is requested that Schedule (1) of this item be increased by \$9,601,000 to reflect one-time carryover funds that is available for grants to the 22 Migrant Education regions. The proposed adjustment includes a one-time increase of \$10,200,000 from carryover, and a decrease in the federal grant of \$599,000. The carryover funds are available due to a one-time technical State and federal budget alignment and the liquidation of prior year encumbrances. The SDE would distribute \$6.2 million according to the current state funding formula that designates 75 percent for all eligible students, and targets 25 percent to students most at-risk of failing to meet academic achievement standards. The SDE would allocate the remaining \$4.0 million as grants to the 22 Migrant Education regions to promote parental involvement and leadership, a key focus under federal Migrant Education program guidelines.

The \$4.0 million for grants includes \$2.0 million previously proposed by the Administration in a letter to the Joint Legislative Budget Committee dated February 23, 2004, for use in 2003-04 for the same purpose. However, SDE subsequently reported that local agencies could not reasonably spend the requested funds effectively by the end of the current fiscal year. Accordingly, we are hereby rescinding our previously proposed use of the \$2.0 million in 2003-04. The Administration's revised proposal would give local agencies the ability to determine which local agencies would provide parental involvement services, and allow more time to plan and spend the entire \$4.0 million most effectively in 2004-05.

It is requested that Schedule (3) of this item be increased by \$22,916,000 to reflect federal grant increases (\$22,638,000) and one-time carryover (\$278,000) for educating limited English proficient and immigrant students. SDE will allocate these funds on a formula basis.

It is requested that Schedules (1) and (3) of this item be amended as follows to conform to these actions:

“(1) 10.30.010-Title I, Migrant Education . . . ~~426,077,000~~ 135,678,000”

“(3) 20.10.004-Title III, Language Acquisition . . . ~~432,793,000~~ 155,709,000”

It is further requested that the following provisional language be added to Item 6110-125-0890:

X. Of the funds appropriated in Schedule (1), \$10,200,000 in carryover funding for Migrant Education is provided on a one-time basis and shall be used for grants to the 22 Migrant Education regions. SDE shall allocate \$6,200,000 under the current state funding formula to promote academic achievement, and \$4,000,000 equitably to all 22 regions to promote parent involvement and leadership activities. Local education agencies shall decide which local entities can most effectively perform parental involvement services.

X. Of the funds appropriated in Schedule (3), \$278,000 in carryover funding for Title III, Language Acquisition, is provided on a one-time basis._

3. 6110-203-0001, Reimbursement Authority Child Nutrition For Nutritional Grants To School Districts and Child Care Agencies (Issue 706)**Adopted April DOF letter. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

It is requested that reimbursement authority for this item be increased by \$150,000. SDE has submitted an application to the Attorney General's Office to obtain funding from the Salton Company Fund. These funds are the result of a settlement with a grill manufacturer for price fixing. These funds will be used to provide nutritional grants to school districts and childcare agencies, and will be contingent on the receipt of an award.

It is also requested that provisional language be added to this item to conform with this action:

3. Of the funds appropriated in Schedule (1), \$150,000 shall be made available to improve the health and nutrition of children through nutritional grants to school districts and childcare agencies. Funding for these grants shall be contingent on an award from the Salton Company Fund for this purpose. Funding for these grants shall not exceed the amount of the award.

4. Control Section 12.40, Technically Revise Reporting Date (Issue 008)**Adopted April DOF letter. Vote: Yes – Scott, Margett, Vasconcellos (3-0)**

Section 12.40 requires local educational agencies to submit data to SDE by October 8, 2005, on how funds are being shifted between programs at the local level, as allowed. The SDE proposes changing the reporting date to October 15, 2005, which conforms to the date that the enabling year-end fiscal data is due from local education agencies.

It is requested that subdivision (c) of Control Section 12.40 be amended as follows to conform to this action:

“(c) As a condition of receiving the funds provided for the programs identified in subdivision (b), local education agencies shall report to the State Department of Education by ~~October 8, 2005~~ October 15, 2005, on any amounts shifted between these programs pursuant to the flexibility provided in subdivision (a). The Department of Education shall collect and provide this information to the Joint Legislative Budget Committee, chairs and vice chairs of the fiscal committees for education of the Legislature and the Department of Finance, by February 1, 2006.”

VIII. Consent Items –April Finance Letters

Adopted Consent List. Vote: Yes – Scott, Margett, Vasconcellos (3-0)

Staff recommends approval of the following revisions to the Governor’s January 10 Budget, as proposed by the April 1, 2004 budget letters from the Department of Finance. No issues have been raised with regard to any of these items.

Federal Funds Adjustments

1. 6110-001-0890, State Operations (Issues 002 and 178)

- **Issue 002: Provisional Language to Reflect Authorized Retirement Rates**—It is requested that provisional language in federal Item 6110-001-0890 be amended to conform with authorized retirement rates. These technical changes reflect approved Public Employment Retirement System (PERS) increases and would not result in expenditure or service changes.

It is requested that Provisions 3, 6, 7, 8, 10, 15, 16, 17, and 19 of this item be amended as follows to conform to these actions:

- “3. Of the funds appropriated in this item, ~~\$384,000~~ \$401,000 is available for programs for homeless youth and adults pursuant to the federal McKinney-Vento Homeless Assistance Act. The department shall consult with the State Departments of Economic Opportunity, Mental Health, Housing and Community Development, and Economic Development in operating this program.”
- “6. Of the amount appropriated in this item, ~~\$1,200,000~~ \$1,265,000 shall be used for the administration of the federal charter schools program. These activities include monitoring of grant recipients, and increased review and technical assistance support for federal charter school grant applicants and recipients. For the 2004-05 fiscal year, one Education Program Consultant position shall support fiscal issues pertaining to charter schools, including implementation of the funding model pursuant to Chapter 34 of the Statutes of 1998.”
- “7. Of the funds appropriated in this item, ~~\$11,268,000~~ \$11,368,000 is from the Child Care and Development Block Grant Fund and is available for support of Child Care Services. Of this amount, \$2,000,000 is one-time federal funds for administrative start-up costs associated with a child care anti-fraud proposal to be developed in collaboration between the Administration and Superintendent and implemented through enabling legislation for the 2004-05 fiscal year. These funds shall be available to the involved state entities, as determined in conjunction with the Department of Finance.”
- “8. Of the funds appropriated in this item, ~~\$2,101,000~~ \$2,159,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of

this amount: (a) \$580,000 is available only for contracted technical support and evaluation services.”

“10. Of the amount provided in this item, ~~\$843,000~~ \$881,000 is provided for staff for the Special Education Focused Monitoring Pilot Program to be established by the State Department of Education for the purpose of monitoring local educational agency compliance with state and federal laws and regulations governing special education.”

“15. Of the funds appropriated in this item, ~~\$752,000~~ \$798,000 shall be available for costs associated with the administration of the High Priority Schools Grant Program pursuant to Article 3.5 (commencing with Section 52055.600) of Chapter 6.1 of Part 28 of the Education Code and the Immediate Intervention/Underperforming Schools Program pursuant to Article 3 (commencing with Section 52053) of Chapter 6.1 of Part 28 of the Education Code.”

“16. Of the funds appropriated in this item, ~~\$413,000~~ \$419,000 shall be available pursuant to Chapter 1020, Statutes of 2002 for the development and implementation of corrective action plans and sanctions pursuant to federal law.”

“17. Of the funds appropriated in this item, ~~\$1,373,000~~ \$1,414,000 is for administration of the Reading First Program. Of this amount, \$873,000 is to redirect 6.0 staff to assist in program administration, and \$500,000 is for the department to contract for annual evaluations of program effectiveness.”

“19. Of the appropriated funds in this item, ~~\$637,000~~ \$668,000 is for the department to continue developing a comprehensive strategy to address data reporting requirements associated with the No Child Left Behind Act (P.L. 107-110), and to establish 5.0 positions to assist with this task.”

- **Issue 178: Federal Mathematics and Science Partnership Grant Program**—It is requested that Schedule (2) of this item be increased by \$10,000 to provide additional state operations support for the federal Mathematics and Science Partnership Grant Program. This amount will allow additional participants to attend a collaboration meeting. The need for additional capacity at the collaboration meeting is the result of an anticipated grant increase of approximately \$6.2 million that will result in new program participants. (See Item 6110-193-0890, Issue 188 for local assistance).

2. 6110-102-0890, Federal Learn and Serve America Program (Issue 182)

It is requested that this item be reduced by \$277,000. This adjustment includes a reduction of \$560,000 in order to align appropriation authority with the anticipated federal grant award amount and an increase of \$283,000 to provide carryover authority for unspent prior year funds. These funds will provide one-time grant augmentations for projects such as lesson plan development and youth-led mini-grants, which provide opportunities for students to organize service programs for pupil and staff participation at their school and other partnering schools.

3. 6110-136-0890, Augment Even Start, McKinney-Vento Homeless Children Education, Title I Basic, and Title I School Support (Issues 001, 004, 005, and 010)

It is requested that Schedule (1) be increased by a total of \$132,733,000 as follows:

- \$10,730,000 to reflect \$10,700,000 of carryover (one-time) and \$30,000 from a federal grant increase to Even Start. SDE will use the funds to expand existing literacy service projects.
- \$52,082,000 to reflect \$8,980,000 of carryover (one-time) and \$43,102,000 from a federal grant increase to Title I Basic.
- \$69,921,000 to reflect \$31,381,000 of carryover (one-time) and \$38,540,000 from a federal grant increase to Title I School Support.

It is requested that Schedule (2) of this item be increased by \$1,996,000, to reflect \$1,229,000 in one-time carryover funds and \$767,000 from a federal grant increase to McKinney-Vento Homeless Children Education. The SDE will use the funds on a competitive basis to provide grants for homeless child education. The program allows students who become homeless to continue attending the same school by providing a district liaison or transportation when necessary.

Title I consists of various programs which provide funds to Local Education Agencies (LEAs) for the academic improvement of disadvantaged students. According to the SDE, these carryover funds are available because local education agencies did not fully spend their original allocations. The federal government allows up to 15 percent of the grant to be carried into the next fiscal year. The SDE is requesting 3 percent to be carried over. The funds primarily go out as formula apportionments.

It is requested that Schedules (1) and (2) of this item be amended as follows to conform to these actions:

“(1) 10.30.060-Title I-ESEA . . . ~~1,695,361,000~~ 1,828,094,000
 (2) 10.30.065-McKinney-Vento Homeless Children Education . . . ~~7,330,000~~ 9,326,000”

It is further requested that the following provisional language be added to the item:

X. Of the funds appropriated in Schedule (1), \$10,700,000 for Even Start, \$31,381,000 for Title I School Support, and \$8,980,000 for Title I Basic, are carryover funds provided on a one-time basis.

X. Of the funds appropriated in Schedule (2), \$1,229,000 in carryover funding for McKinney-Vento Homeless Children Education is provided on a one-time basis.

4. 6110-156-0890, One-time Carryover for the Federal Adult Education Program (Issue 184)

It is requested that Schedule (1) of this item be increased by \$5,521,000. This adjustment includes an increase of \$1,355,000 in order to align appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide funding to local programs that provide adult education courses. Further, this adjustment includes an increase of \$4,166,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations for professional development in areas such as federal data collection requirements and on how to develop collaborations with local One-stop agencies.

5. 6110-166-0890, One-time Carryover for Federal Vocational Education Program (Issue 186)

It is requested that this item be increased by \$1,597,000. This adjustment includes a reduction of \$4.7 million in order to align appropriation authority with the anticipated federal grant award amount and an increase of \$6,297,000 to provide carryover authority of unspent prior year funds to provide one-time augmentations to existing program participants for Leadership and Tech-Prep priorities, including standards-aligned curriculum development and staff development activities.

6. 6110-180-0890, Education Technology (Issue 652)

It is requested that this item be increased by \$3,338,000 to reflect an increase in federal funding for the Enhancing Education Through Technology Grant Program.

It is requested that Provisions 1 and 2 of this item be amended as follows:

- “1. Of the funds appropriated in this item, ~~\$42,704,000~~ \$45,571,000 is for allocation to school districts that are awarded formula grants pursuant to the federal Enhancing Education Through Technology Grant Program.
2. Of the funds appropriated in this item, ~~\$42,703,000~~ \$45,570,000 is available for competitive grants pursuant to Chapter 8.9 (commencing with Section 52295.10) of Part 28 of Division 3 of the Education Code and the requirements of the federal Enhancing Education Through Technology Grant Program—including the eligibility criteria established in federal law to target local education agencies with high numbers or percentages of children from families with incomes below the poverty line and one or more schools either qualifying for federal School Improvement or demonstrating substantial technology needs. Under no circumstances shall the legislation designate specific local education agencies as subgrant recipients.”

7. 6110-183-0890, Drug Free Schools and Communities Program (Issue 708)

It is requested that this item be decreased by \$177,000. Specifically, the proposed budget adjustment is the result of: (1) a base \$4,616,000 increase in the federal grant for Drug Free Schools, (2) a one-time carryover of \$1,526,000 from unused funds, and (3) the federal elimination of \$6,319,000 for community service grants. SDE will use the funds to provide

grants to local education agencies for providing drug and violence prevention and intervention services.

It is also requested that Provision 2 of this item be deleted and provisional language be added as follows:

3. Of the funds appropriated in this item, \$1,526,000 is available for one-time grants for drug and violence prevention and intervention services.

8. 6110-193-0890, Federal Mathematics and Science Partnership (Issue 188)

It is requested that this item be increased by \$6,238,000 in order to align the appropriation authority with the anticipated federal grant award amount. Consistent with current policy, these funds will be used to provide additional competitive grant awards to institutes of higher education and low-performing schools to partner to provide staff development and curriculum support for mathematics and science teachers.

9. 6110-195-0890, Federal Improving Teacher Quality Grant (Issue 189)

It is requested that Schedule (1) of this item be reduced by \$11,291,000 in order to align appropriation authority with the anticipated federal grant award amount. This adjustment includes a technical correction of approximately \$8.6 million in federal Title II-Improving Teacher Quality funding that is provided by the US Department of Education directly to the California Postsecondary Education Commission, but was inadvertently reflected in SDE's appropriation.

Other Adjustments

10. 6110-001-0687, Donated Food Revolving Fund (Issue 704)

It is requested that this item be increased by \$400,000 to purchase additional equipment to handle the higher volumes and to replace aging equipment. Voluntary fees paid by local agencies (per unit of food) reimburse SDE for the costs of receiving, storing, handling, and distributing food items donated by the federal government to the local agencies. Higher volumes of food distribution and the collection of previously delinquent fees are available to support the proposed expenditures without increasing fees.

11. 6110-113-0001, California High School Proficiency Exam Spending Authority (Issue 154)

It is requested that this item be amended by increasing reimbursement authority by \$143,000 for an additional 1,676 pupils to take the California High School Proficiency Exam.

12. 6110-301-0660, Department of Education, State Special Schools and Services Division

It is requested that Item 6110-301-0660 be increased by \$3,312,000 to reauthorize the construction of the Pupil, Personnel Services building at the California School for the Deaf in

Fremont. This phase was previously approved for \$2,144,000 Lease Revenue Bond funding in 2002. However, all of the bids received in December 2003 exceed the appropriation by an amount that surpasses the Public Works Board augmentation authority. The project has been cancelled pending the Legislature's approval of the increased funding. The funds requested are based on revised estimates that reflect current market conditions.

13. 6110-485 and 6110-605-0001, 2000-01 Certificated Staff Performance Awards (Issue 190)

It is requested that \$32,672,000 be reappropriated from the Proposition 98 Reversion Account for payments to teachers in schools who qualify for Certificated Performance Awards by virtue of the courts' findings in the Boyd and Acevedo cases. It is therefore requested that Schedule (6) be added as follows:

(6) \$32,672,000 to the State Department of Education for the purpose of funding the 2000-01 Certificated Staff Incentive Awards.

14. 6110-495, Proposition 98 Reversion Language, (Issue 007)

It is requested that language in Schedule (2) of this item be amended to allow the unexpended balance, rather than the specific amount (\$569,000), to be reverted. The State Controller's Office indicates that it is unable to revert amounts that differ from the estimated year ending balances projected in the budget. This technical change would allow the Controller to revert whatever amount is remaining at the end of the fiscal year from designated funds, as intended. Every other schedule in the item already has the requested language.

It is requested that Item 6110-495- be amended as follows to conform to these actions:

“(2) \$569,000, or whatever greater or lesser amount reflects unexpended funds, from Schedule (3) of Item 6110-104-0001, Budget Act of 2002 (Ch. 379, Stats. 2002)”

15. 6330-001-0890, California Occupational Information Coordinating Committee (Issue 190)

It is requested that Item 6330-001-0890 be reduced by \$30,000 to remove excess authority provided due to an error in the billing amount used to calculate the 2004-05 Statewide Cost Allocation Plan (SWCAP) recovery total for the California Occupational Information Coordinating Committee (COICC). It was inadvertently reported that the COICC had used 90 hours of centralized legal services during the 2002-03 fiscal year. This incorrect reporting resulted in an increase in the SWCAP cost recovery estimate for 2004-05 of \$30,000. This misreporting has been corrected and the SWCAP recovery estimate reduced by \$30,000.

16. Control Section 24.60, Lottery Expenditure Reports (Issue 321)

Beginning in 2003-04, all school districts, county offices of education and joint powers agencies are reporting in the SACS format. Therefore, SDE is able to report statewide lottery expenditures, except for charter schools, without sampling expenditures from a few local educational agencies. It is therefore requested that Control Section 24.60 be amended as follows:

~~“SEC. 24.60. (a) From the funds appropriated in Items 4300-003-0814, 4440-011-0814, 5460-001-0831, 6110-006-0814, 6110-101-0814, 6440-001-0814, 6600-001-0814, and 6870-101-0814 of this act, the State Department of Developmental Services, the State Department of Mental Health, the Department of the Youth Authority, the State Special Schools, the Regents of the University of California, the Board of Directors of Hastings College of the Law, the Board of Trustees of the California State University, and community college districts through the Chancellor of the California Community Colleges~~ Each entity receiving lottery funds shall annually report to the Governor and the Legislature ~~no later than January 15, 2006~~ on or before May 15, the amount of lottery funds that each entity received and the purposes for which those funds were expended in the ~~2004-05~~ prior fiscal year, including administrative costs, ~~and proposed expenditures and purposes for expenditure for the 2005-06 fiscal year.~~ If applicable, the amount of lottery funds received on the basis of adult education average daily attendance (ADA) and the amount of lottery funds expended for adult education also shall be reported. (b) ~~The State Department of Education shall determine the patterns of use of lottery funds in all local educational agencies having more than 200,000 ADA and representative local educational agencies randomly selected by size, range, type, and geographical dispersion. On or before May 15, 2005, the State Department of Education shall report this information to the Legislature and the Governor for the 2003-04 fiscal year.”~~

IX. Consent Items -- Special Funds

Adopted Consent List. Vote: Yes – Scott, Margett, Vasconcellos (3-0)

Staff recommends that the following Special Fund Items be approved as budgeted.
No issues have been raised with regard to any of these Items:

1. 6110-001-0178, Support, Schoolbus Driver Instructor Training, payable from the Driver Training Penalty Assessment Fund, \$1,055,000.
2. 6110-001-0231, Support, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$916,000.
3. 6110-001-0687, Support, California State Agency for Donated Food Distribution, payable from the Donated Food Revolving Fund, \$5,298,000.
4. 6110-001-0975, Support, Library and Learning Services, payable from the California Public School Library Protection Fund, \$16,000.
5. 6110-001-6036, Support, Administrative Services to local educational agencies, payable from the 2002 State Schools Facilities Fund, \$2,290,000.
6. 6110-006-0814, Support, State Special Schools, payable from the California State Lottery Education Fund, \$133,000.
7. 6110-101-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$3,106,000.
8. 6110-101-0814, Local Assistance, School Apportionment, payable from the California State Lottery Education Fund, \$793,296,000.
9. 6110-101-0975, Local Assistance, Library and Learning Resources, payable California Public School Library Protection Fund, \$4,574,000.
10. 6110-102-0231, Local Assistance, Curriculum Services—Health and Physical Education Drug Free Schools, payable from the Health Education Account, Cigarette and Tobacco Products Surtax Fund, \$18,998,000.
11. 6110-301-0660, Capital Outlay, payable from the Public Buildings Construction Fund, \$69,948,000. California School for the Deaf in Riverside, Dormitory Replacement and Chiller – Preliminary working plans, working drawings, construction, and equipment.

Appendix A
Federal Formula Grants to California from the
U.S. Department of Education, FFY 2004 (2004-05)

Funds for State Formula-Allocated and Selected Student Aid Programs			
	2003 Actual	2004 Estimate	Change Fiscal Year 2003 to 2004 Amount
ESEA Title I Grants to Local Educational Agencies	1,649,697,459	1,764,483,256	114,785,797
Reading First State Grants	142,801,723	146,071,447	3,269,724
Even Start	31,342,083	31,439,116	97,033
State Agency Program—Migrant	127,545,988	126,745,395	-800,593
State Agency Program—Neglected and Delinquent	3,350,153	3,349,803	-350
Comprehensive School Reform (Title I)	31,096,447	31,344,563	248,116
Capital Expenses for Private School Children	0	0	0
Subtotal, Education for the Disadvantaged	1,985,833,853	2,103,433,580	117,599,727
Impact Aid Basic Support Payments	57,206,080	68,163,325	10,957,245
Impact Aid Payments for Children with Disabilities	3,774,822	4,186,127	411,305
Impact Aid Construction	1,052,300	1,087,001	34,701
Subtotal, Impact Aid	62,033,202	73,436,453	11,403,251
Improving Teacher Quality State Grants	341,185,718	341,106,053	-79,665
Mathematics and Science Partnerships	13,901,945	20,513,767	6,611,822
Educational Technology State Grants	89,959,919	93,300,634	3,340,715
21st Century Community Learning Centers	76,288,342	136,981,161	60,692,819
State Grants for Innovative Programs	46,410,526	36,578,183	-9,832,343
State Assessments	30,621,018	32,388,547	1,767,529
Rural and Low-income Schools Program	2,573,030	2,575,759	2,729
Small, Rural School Achievement Program	7,489,667	7,493,659	3,992
State Grants for Community Service for Expelled or Suspended Students	6,652,068	0	-6,652,068
Indian Education—Grants to Local Educational Agencies	6,706,324	6,771,285	64,961
Fund for the Improvement of Education—Comprehensive School Reform	9,159,623	9,271,493	111,870
Safe and Drug-Free Schools and Communities State Grants	60,756,063	53,363,516	-7,392,547
Eisenhower Professional Development State Grants	0	0	0
Class Size Reduction	0	0	0
Language Acquisition State Grants	140,308,451	160,319,511	20,011,060
Immigrant Education	0	0	0
Subtotal, All of the Above Programs, which constitute the No Child Left Behind Act of 2001	2,879,879,749	3,077,533,601	197,653,852
Education for Homeless Children and Youth	7,713,390	8,497,997	784,607
State Grants for Incarcerated Youth Offenders	1,940,308	2,098,897	158,589
School Renovation Grants	0	0	0
Special Education—Grants to States	933,124,077	1,072,636,899	139,512,822
Special Education—Preschool Grants	39,529,222	39,550,707	21,485
Grants for infants and Families	52,016,926	54,325,050	2,308,124
Subtotal, Special Education	1,024,670,225	1,166,512,656	141,842,431
Secondary and Technical Education State Grants	0	0	0
Vocational Education State Grants	127,491,358	128,464,270	972,912
Tech-Prep Education State Grants	11,688,655	11,563,216	-125,439
Adult Basic and Literacy Education State Grants	63,213,469	64,223,365	1,009,896
English Literacy and Civics Education State Grants	18,324,637	18,019,237	-305,400
Subtotal, Vocational and Adult Education	220,718,119	222,270,088	1,551,969
Subtotal, All Elementary/Secondary Level Programs	4,134,921,791	4,476,913,239	341,991,448

Source: U.S. Dept. of Education, Budget Service, March 31, 2004

Appendix B**Special Education Enrollment by Disability,
Statewide Report, 2002-03**

Disability	Students Enrolled	Percentage
Specific Learning Disability	344,571	51.0%
Speech or Language Impairment	172,417	25.5%
Mental Retardation	43,302	6.4%
Emotional Disturbance	26,144	3.9%
Other Health Impairment	28,161	4.2%
Autism	21,066	3.1%
Orthopedic Impairment	15,131	2.2%
Hard of Hearing	6,934	1.0%
Multiple Disability	6,670	1.0%
Deaf	4,540	.7%
Visual Impairment	4,624	.7%
Traumatic Brain Injury	1,565	.2%
Deaf-Blindness	207	.03%
TOTAL	675,332	100%

Source: California Department of Education, Special Education Division

Appendix C**State-Mandated Local Programs Proposed by the Governor in 2004-05**

Mandate
Annual Parent Notification
Caregiver Affidavits
Pupil Suspension – district employee reports
Intra-District Attendance
Inter-District Attendance
Inter-District Transfer – Parent's employment
Mandate Reimbursement process
Graduation Requirements
Notification Truancy
Pupil Expulsions/Expulsion Appeals
Open Meetings Acts
Pupil Exclusions
Charter Schools
Investment Reports
PERS Death Benefits
AIDS Prevention Instruction
Collective Bargaining
Pupil Classroom Suspension: counseling
Physical Performance Tests
Pupil Health Screenings
Juvenile Court Notices II
Removal of Chemicals
Law Enforcement Agency Notifications
Immunization Records
Habitual Truants
Collective Bargaining Agreement Disclosures
Expulsion Transcripts
Pupil Suspensions: Parents Classroom Visits
Notification to Teachers of Public Expulsion
Scoliosis Screening
Unused Sick Leave Credit
School Accountability Report Cards
Emergency Procedures
American Course Govt. Document
Pupil Residency Verification and Appeals
Criminal Background Checks
Peace Officer Procedural Bill of Rights*
Financial and Compliance Audits*
Physical Education Reports*
Health Benefits for Survivors of Peace Officers and Firefighters*
County Office of Education Fiscal Accountability Reporting*
Employee Benefits Disclosure*
School District Fiscal Accountability*
Photographic Record of Evidence*
TOTAL

* New mandates approved by the Commission on State Mandates and included in the Governor's 2004-05 Budget.

Appendix D
Recommendations of the Assembly Special Committee on Mandates

Appendix A: Recommendations from the Assembly Special Committee on Mandates

Ch/Yr	Title	Description	2004-05 Gov Budget	Estimated Annual Costs	Com. Action
ADMINISTRATIVE					
Ch. 98/94	Caregiver Affidavits	This mandate requires LEAs to (a) enroll a pupil living in the home of a caregiving adult living within the district, and (b) annually monitor a specified caregiver affidavit form. The highest reimbursable costs are for administrative tasks related to receiving and approving submitted affidavits and processing enrollment paperwork.	Defer	912	Make optional the annual renewal of affidavits
Ch.650/ 94 et al.	Employee Benefits Disclosure	Requires that districts (1) receive an actuarial estimate of the accrued, but unfunded portion of the health and welfare benefits of retired employees, (2) calculate and present at a public meeting the amount of accrued health and welfare benefits, (3) demonstrate that the budget contains sufficient funding to meet the current value, and (4) annually certify to the SPI the amount of reserve for the health and welfare benefits of current and retired employees. The largest cost component results from annually calculating the amount of accrued health and welfare benefits and determining that the budget contains sufficient funding to meet the liability. Secondary costs result from presenting that information at a public hearing and providing annual conformation to the SPI.	Defer	452	Make law inoperative. LAO to report back if GASB amendment does not take place in July.

Budget and Fiscal Review Subcommittee No. 1**Education**

Ch. 100/81 et al.	School District Fiscal Accountability Reporting	This mandate requires school districts to (a) provide specified financial information and certifications to the county superintendent; (b) adopt a revised budget one week earlier than was previously required; (c) to make available for public review an updated district budget after adoption of the State budget; (d) for districts with a negative or qualified budget certification, provide specified information to the SPI, SCO, and county superintendent. The mandate also requires county offices of education to review, verify, and forward to the SPI specified information related to district budgets. The greatest reimbursable costs are likely related to updating district budgets and providing specified information to the SPI, SCO, and county schools superintendent.	Defer	2,525	DOF was asked to ask CSM to review its statement of decision to clarify the extent to which costs can be offset by Budget Act appropriations.
Ch. 1463/89	School Accountability Report Cards	Section 8.5 of Article XVI of the State Constitution requires school districts maintaining an elementary or secondary school, to develop a SARC for each school. Ch. 1463/89 established the School Accountability Report Card (SARC), which requires schools to provide a report card including various non-constitutionally required information such as the average salary of principals in the district and the school's expulsion rate. Major activities include compiling, analyzing and reporting the required data and annually posting the SARC on the Internet.	Defer	4,598	DOF was asked to ask CSM to review prior Decision in light of federal law and recent SARC II & III decisions.
Ch. 828/97	Standardized Testing and Reporting (STAR)	Ch. 828/97 established the Standardized Testing and Reporting Program, which requires schools to test pupils in grades 2 through 11 using a nationally normed exam and a series of tests aligned with State-adopted content standards. Major activities include acquiring test materials, supplies and equipment, training staff on State policies, developing internal policies, and coordinating pretest and posttest activities. Most costs should be recovered from budget appropriations.	Not in budget	Unknown	DOF was asked to ask CSM to review prior Decision in light of federal law.
Ch. 309/95	Pupil Residency Verification and Appeals	This mandate requires LEAs adjacent to the international border to make reasonable efforts to determine a pupil's residency if a district employee has reason to believe false or unreliable documentation of residency has been provided and also requires district to establish an appeals process. The greatest reimbursable costs are related to residency verification efforts and complying with the established appeals process.	Defer	190	Do not change

Ch. 36/77 et al.	Financial and Compliance Audits	This mandate requires county offices of education to undertake additional activities related to financial and compliance audits of school districts, including (a) adding specified boilerplate language to audit contracts, (b) paying auditors with multiple instead of lump-sum payments, (c) upon request from SDE or SCO, consulting with State agencies and assisting districts to resolve audit exceptions, and (d) publicly reviewing annual audits. The greatest reimbursable costs will likely result from assisting districts to resolve audit exceptions and publicly reviewing annual audits.	Defer	1,133	Pending additional information, after review, make permissive: 1) respond to inquiries, 2) corrective action plans, and 3) report to the governing board
Pupil Discipline, Suspension, and Expulsion					
Ch. 965/77 & 498/83	Pupil Classroom Suspension : Counseling	Requires that school counselors or school psychologists attend post-classroom suspension parent-teacher conferences whenever practicable. Of the reimbursable activities associated with this mandate, the highest costs result from providing counseling services at parent-teacher conferences.	Defer	2,627	Repeal, make permissive
Ch. 1284/88 & 213/89	Pupil Suspension : Parent Classroom Visits	Requires (a) school district governing boards to adopt a policy authorizing teachers to require the parent or guardian of a pupil who has been classroom-suspended by a teacher, to attend a portion of a school day in his or her child's or ward's classroom on the day in which the pupil is scheduled to return to class, or within a reasonable period of time thereafter; (b) parents or guardians be notified of this policy prior to its implementation; (c) the principal to send a written notice to the parent or guardian stating that attendance is pursuant to law; (d) school staff to contact parents or guardians who do not respond to the request; and (e) the school administrator to meet with the parent after the classroom visitation and before leaving the school site. This applies only to a parent or guardian who is actually living with the pupil. Of the reimbursable activities associated with this mandate, the highest costs result from parental notices, follow up contacts, and meetings.	Defer	800	Repeal, make permissive

Ch. 498/83	Notification of Truancy	Requires school districts, upon a pupil's initial classification as a truant, to notify the pupil's parent or guardian by 1st class mail or other reasonable means of (1) the pupil's truancy; (2) that the parent or guardian is obligated to compel the attendance of the pupil at school; and (3) that parents or guardians who fail to meet this obligation may be guilty of an infraction and subject to prosecution pursuant to Art. 6 (commencing with §48290) of Ch 2 of Part 27. Additionally, the district must inform parents and guardians of (1) alternative educational programs available in the district; and (2) the right to meet with appropriate school personnel to discuss solutions to the pupil's truancy. Of the reimbursable activities associated with this mandate, the highest costs result from notification of parent or guardian and recordkeeping.	Defer	10,616	Repeal, make permissive
Ch. 1184/75	Habitual Truants	Defines habitual truant and states that no pupil shall be deemed a habitual truant, unless school districts make a "conscientious effort" to hold at least one conference with the pupil's parent or guardian and the pupil. Ch 1023/94 requires school districts to classify a pupil as a habitual truant as defined in EC §48262 upon the pupil's fourth truancy within the same school year. Of the reimbursable activities associated with this mandate, the highest costs result from reviewing school records and scheduling and holding parent conferences.	Defer	8,871	Repeal, make permissive
Ch. 1253/75	Expulsion Transcripts	Provides that school districts must not charge the parents or guardians of pupils for the cost of the transcript of the initial expulsion hearing when the parents or guardians have limited income, and to refund the cost of the transcript to the parents or guardians when the county board reverses the local board's decision to expel the pupil pursuant to EC §48921, as renumbered by Ch 498/83. Of the reimbursable components associated with this mandate, the highest costs result from salaries and benefits of employees who perform the duties associated with providing a written transcript.	Defer	14	No Action

Ch. 1306/89 & 1257/93	Notification to Teachers of Pupil Expulsion	Requires that school districts report to each teacher the name of any student who has caused, or attempted to cause, serious bodily injury or injury to another person. The notification is based on written records the district maintains or receives from a law enforcement agency. Districts are not liable for failure to comply as long as a good faith effort is made to notify teachers. School personnel are immune from civil or criminal liability unless the information they provide is knowingly false. Of the reimbursable activities associated with this mandate, the highest costs result from information maintenance and notifying teachers.	Defer	6,154 Leg Counsel suggests we do not try to combine.	Accept LAO Recco: Ask SCO to 1) review claims and ID high cost components and, 2) recommend unit cost. Unit cost difficult at this time, ask SCO to prioritize this mandate for audits
Ch. 498/83 et al.	Pupil Suspensions, Expulsions, and Expulsion Appeals	This consolidated mandate covers activities relating to mandatory pupil suspensions and expulsions, required expulsion appeals procedures, pre-suspension conferences, etc. Of the reimbursable activities associated with this mandate, the highest costs result from salaries and wages of employees required to prepare reports and attend hearings for suspended and expelled students (due process activities). (Consolidated with Pupil Suspensions: District Employee Reports mandate per COSM amended parameters and guidelines.)	Defer	4,380	Leave alone for now, but may be part of the "federal" discussion
SAFETY					
Ch. 1107/84	Removal of Chemicals	Requires districts to comply with guidelines for the removal and disposal of chemicals whose shelf life has elapsed. Eligible claimants are reimbursed for ongoing costs of maintaining a program for the regular removal and disposal of identified chemicals. Eligible costs include school district staff costs associated with the removal or inventorying of chemicals, and consultant and contractor fees or charges. Potential high costs include: initial inventory development, maintaining the inventory, and removal and disposal of chemicals. We note that there has been relatively low funding claimed by all districts for this mandate.	Defer	2,091	DOF was asked to ask CSM to review P&Gs to reflect changes in this mandate

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Ch. 736/97 et al.	Comprehensive School Safety (pending claim)	Requires school sites to write, develop, and adopt comprehensive school safety plans and submit them to the school district or COE for approval. Reimbursable activities associated with this mandate include consulting with law enforcement in the development of the plan; assessing the current status of school crime committed on school campuses and school related functions; annual review and update of the plan.	Not in Budget	No Estimate Available (Pending Claim)	Look into consolidating this with "Emergency Procedures". The "other funding source will be part of the April discussion. Repeal annual update requirement
Ch. 1659/84	Emergency Procedures; Earthquake and Disasters	Requires LEAs to have earthquake emergency procedures for all school buildings. Eligible claimants are reimbursed for increased costs incurred to prepare an emergency procedure system and providing specified mass care and welfare shelters. Of the reimbursable activities associated with this mandate, the highest costs result from the ensuring that students and staff are aware of and properly trained in the emergency plans and performance of a quarterly drop procedure practiced by every student and staff member.	Defer	19,799	Leave earthquake plan alone. Make implementation permissive. Combine with "Comprehensive" above.
Ch. 1423/84 et al.	Juvenile Court Notices II	Requires school district superintendents to distribute to relevant school-site personnel written notices provided by the juvenile court system regarding pupils enrolled in their districts who have been convicted of certain felonies or misdemeanors, and to maintain these files until the student graduates from high school, is released from juvenile court jurisdiction, or reaches the age of 18, whichever comes first. Of the reimbursable activities associated with this mandate, the highest costs result from record retention and destruction.	Defer	811	Ask Leg Counsel to look into combining with "Notification of Teachers..." Pick least costly methodology Leg Counsel suggests we do not try to combine.
Ch. 1117/89	Law Enforcement Agency Notifications	Requires that school authorities notify the appropriate law enforcement agency of any acts of a pupil that may involve the possession or sale of a controlled substance or a violation of PC §626.9 and 626.10. Of the reimbursable activities associated with this mandate, the highest costs result from preparation and filing of reports and record maintenance.	Defer	2,082	No Action

HEALTH					
Ch. 668/78	Pupil Health Exclusions	Requires school districts to: (a) send a notice to a pupil's parent/guardian, (b) grant the parent/guardian the right to meet with the governing board, (c) conduct the meeting in accordance with certain procedural rules, and (d) provide periodic review of the exclusion. HSC§120230 specifies that no pupil who resides where any contagious, infectious, or communicable disease exists/existed, and that is subject to strict isolation/quarantine, shall be permitted to attend school except by written permission of a county health officer. EC§49451 states that when a pupil's parent/guardian has refused to consent to a physical examination of his or her child, and there is good reason to believe that he pupil is suffering from a recognized contagious or infectious disease, the pupil shall be excluded from school until school authorities are satisfied that no contagious or infectious disease exists. Of the reimbursable activities associated with this mandate, the highest costs result from producing written reports and	Defer	1,469	Repeal, but keep "due process" part of the mandate
Ch.120 8/76 et al.	Pupil Health Screenings	Requires (a) the governing body of every school district which has kindergarten children enrolled to provide Child Health & Disability Prevention (CHDP) information to parents; (b) districts to report to the county and DHS the number of pupils enrolled in first grade and number of health screening certificates (and waivers) received; (c) counties to reimburse districts for the information collection process; (d) districts to exclude pupils who do not have a health screening (or waiver) from school under specified circumstances; and (e) districts to make specified family contacts before excluding a pupil from attendance. Of the reimbursable activities associated with this mandate, the highest costs result from parental notification, obtaining parental compliance, exclusion of pupils, and statistical reporting.	Defer	4,884	Eliminate reporting requirement to DHS, unless DOF finds out this information is used by DHS
Ch.640/97	Physical Education Compliance Reports	Adds a new reporting and compliance requirement to determine whether districts are actually providing their students with the statutory minimum minutes of physical education. Of the reimbursable activities associated with this mandate, the highest costs will result from staff training and record keeping.	Defer	14	Repeal, pending DOF report as to whether or not CCR is sufficient

Ch. 1176/77	Immunization Records - Including Hepatitis B	Provides uniform requirements for immunization of students prior to entering private or public elementary, secondary school or other specific institutions. In addition, the governing authority of the school or specified institution is required to maintain immunization records on each student and file a written report on the immunization status of new entrants to the school or institution with the State Department of Health Services at times and on forms prescribed by the department. Of the reimbursable activities associated with this mandate, the highest costs result from record maintenance and periodic reporting. Hepatitis B: Ch 291/95 required documentation of Hepatitis B immunization for all children entering the Kindergarten level or below. Ch. 882/97 further required Hep B immunization for all students entering 7th grade.	Defer	3,650	Leave alone
CURRICULUM					
Ch. 778/96	American Government Course Document	Requires school districts to teach students to read the Declaration of Independence, U.S. Constitution, Federalist Papers, Emancipation Proclamation, Gettysburg Address, and George Washington's Farewell Address, as part of American Government and Civics courses required for graduation. The highest cost resulting from this mandate is the cost of training teachers how to teach American Government or Civics courses to the students. This cost may include the salary/fee of the trainer and related travel expenses. Other costs may include travel expenses to and from seminars for teachers. Other high costs include the adoption of new textbooks or instructional materials.	Defer	194	Repeal mandate statute; mandate subject matter in state assessments and content sdts.- LAO suggestion
Ch. 498/83	Graduation Requirements	Requires districts to provide two science classes to pupils before their graduation from Grade 12. Previously, only one science class was required for graduation. This mandate is for the incremental cost associated with requiring one additional science course as a prerequisite for graduation. Costs include staffing, facilities, and equipment that are unique to science courses.	Defer	11,349	Defer action - Add language to require that State or Local bond money must be used to offset reimbursable state mandate. DOF to report back
Conforming to other Non Proposition 98 issues					

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Ch. 783/95 et al.	Investment Reports	This mandate requires LEAs to submit an annual statement of investment policy as well as quarterly report of investments. The greatest reimbursable costs are related to compiling data to prepare quarterly investment reports for submission to the district CEO, internal auditor, and governing board and preparing annual investment policy for submission to the district governing board and county board of supervisors.	Suspend to conform to 2003 Budget Act suspensio n of non- 98 mandate	318	Conforming
Ch. 784/95 & 156/96	County Treasury Oversight Committee s	This mandate requires the establishment of a county treasury oversight committee for any county that is investing surplus funds and allows for reimbursement of costs incurred by committee members, including county superintendents of schools or designees, to prepare for and attend committee meetings. Education-related costs result if a county superintendent of schools is reimbursed for time served on the oversight committee.	Suspend to conform to 2003 Budget Act suspensio n of non- 98 mandate	57	Conforming
Ch.126/ 93	Law Enforceme nt: Sexual Harassment Training	Requires peace officers who are victims of sexual harassment in the workplace to follow complaint guidelines developed by the Commission on Peace Officer Standards and Training, and requires peace officers who completed basic training before January 1, 1995 to attend supplementary training on sexual harassment in the workplace. Of the reimbursable activities associated with this mandate, the highest costs will result from salaries and benefits of the trainees required to take the training class.	Repeal	20	Conforming

Appendix E.**Revisions to the Governor's Agreement for K-14 Education ***

<i>Dollars In Millions</i>	Governor's Jan 10 Budget Agreement	Governor's Jan 21 Budget Agreement	Change
K-12 Equalization	110,000	82,230	-27,770
CCC Equalization	80,000	59,804	-20,196
Deferred Maintenance	173,300	0	-173,300
Instructional Materials	188,000	0	-188,000
Discretionary Growth & COLAs**	0	139,177	139,177
Deficit Reduction (Revenue Limit Funds)	0	270,089	270,089
Total	\$551,300	\$551,300	0

* Beyond the Governor's \$1.2 billion agreement for statutory growth and COLAs for revenue limits and categorical programs in 2004-05.

**Includes approximately \$86 million in growth and COLAs for community colleges apportionments and categorical programs, and \$53.1million in growth and COLAs for K-12 categorical programs that traditionally receive growth and COLAS.